

THE MICHIGAN ASSOCIATION  
FOR FAMILY COURT  
ADMINISTRATION & THE  
NORTHERN MICHIGAN JUVENILE  
OFFICERS ASSOCIATION:  
A RESPONSE TO THE OFFICE OF  
THE AUDITOR GENERAL'S  
PERFORMANCE AUDIT REPORT,  
CHILD CARE FUND  
MDHHS  
JUNE 2016

*June 20, 2016*

The courts/counties in Michigan have a vested interest in the outcomes of the Auditor General's Performance Audit Report on the Child Care Fund published on June 9, 2016 as it relates to the Michigan Department of Health and Human Services as published. The services rendered through the Child Care Fund (CCF) are funded on a local level by the counties and implemented by the juvenile courts. The State reimburses the counties 50% for programs that meet the eligibility requirements as defined in statute and the CCF Handbook, and are subject to interpretation.

MAFCA represents the majority of juvenile courts in the State, and thus, the responses to the findings in this section of the Audit Report reflect a collective perspective. Comments are provided for the purpose of clarification and further education.

## Brief Historical Child Care Fund Overview

The Child Care Fund (CCF) originated in 1955 through Public Acts 104, 106, 112, 113 and 114. These were referred to as the "Foster Care Bills" because they were designed by the legislature to *improve child care (foster care)* in Michigan by the State's participation in costs.

Public Act 280 of 1975 created the Office of Juvenile Justice Services and placed the CCF under the direction of this office. This law mandated 50% of eligible costs expended by the county to be reimbursed by the State. In-home care was added and reimbursement at 50% was allowed for community based programs.

In July of 1997, the Michigan Supreme Court ruled the capped liability for the State was illegal under the terms of the Headlee Amendment. This provided a fiscal incentive for the courts to develop local, community based programming to better meet the needs of delinquent youth and reduce placement of youth in higher cost, less effective residential programs, thus, improving services to youth and families.

## Introduction

The Michigan Association for Family Court Administration (MAFCA) is a long-standing, professional organization founded in 1974. Membership represents court managers from the Family Division of the Circuit Court from over forty-seven of the fifty-five circuit courts in Michigan.

The Northern Michigan Juvenile Officer's Association is an organization that is similar in focus to MAFCA but has an added interest in addressing and supporting the specific issues experienced by the juvenile courts peculiar to the size and locale of the counties represented.

The Office of the Attorney General's *Performance Audit Report, Child Care Fund, Michigan Department of Health and Human Services (MDHHS), June 2016* findings were of great interest to the MAFCA membership because of the desire to be good stewards of the taxpayers' dollars while providing quality programming for Michigan's delinquent youth.

An observation garnered from reviewing the findings in the Report suggests the auditors may have been able to gain more insight into their concerns through a more thorough explanation. This is unfortunate as it may have offered them an opportunity to expand their perception and understanding of the issues resulting in modified results of this Report.

Although the Report evaluated the performance of MDHHS, the following response to the Report findings is an effort to provide additional information and to clarify information from the juvenile courts' perspectives.

# Performance Audit Report, Child Care Fund, Michigan Department of Health and Human Services (MDHHS)

June 2016

(Pages 7 – 28 of the Audit Report are provided for reference in the attached Appendix)

## EVALUATING THE PERFORMANCE OF COUNTY CCF PROGRAMS

**FINDING #1** MDHHS did not evaluate the performance of county IHC programs to ensure that CCF funding is providing successful outcomes\* for the neglected, abused and delinquent youth served.

### MAFCA RESPONSE

In Sec. 400.117e(5), statute specifically defines IHC as *alternatives to out of home care or early return from placement*. It also defines an *effective* IHC program is one that is an *alternative to out of home care*, which constitutes the measurement for effectiveness. Therefore, if a program prevents a youth from going into out-of-home (OHC) care, e.g., residential placement or foster care, it is deemed effective.

A primary benchmark that is also identified by statute is a reduction in the number of days of care. The juvenile courts report data on the number of days of foster care, out-of-home detention, shelter care, and residential treatment care. The courts also report the number of youth petitioned, the number of adjudications, and State Wards committed to MDHHS.

In MCL 400.117, a “Juvenile Justice Service” is defined. This could be considered the guiding section for standardization. Current CCF funded juvenile justice services fit into one or more of the identified categories, and the courts assert this provides for a reasonable degree of statewide standardization.

One of the significant successes of the CCF programs developed on a local level is that it provides the courts the opportunity to design and implement programs that meet the individual needs of court-referred youth. For those courts utilizing a risk/needs assessment, the individual scores on these instruments are used to develop programming based on the identified needs for each youth. To assume the same services should be available in every county is unrealistic. Rather, a more appropriate target might be that every court/county has access to services that adequately address the individual needs of their court referred youth.

Standardization exists as stated above and provides MDHHS the necessary information to understand what types of CCF/county funded programs reflect the unique needs of the local communities.

As stated in the audit, MDHHS has consistently required courts to report performance indicators, which are also considered to be outcomes by many.

Prior to four years ago, MDHHS/CCFMU's analysis of the data prompted further review, technical assistance and as necessary, changes prior to approval by CCFMU staff which was effective.

It is suggested, the following statute that allows for in-home care (IHC) is permissive rather than mandated. Additionally, the purpose and required outcomes are clearly stated as MDHHS/CCFMU requires submission of all information needed to measure this outcome.

**400.117e Annual basic grant of state money; eligibility; use of basic grant; criteria and conditions for basic grant; money for early intervention to treat problems of delinquency and neglect.**

“5) To provide for early intervention to treat problems of delinquency and neglect within the child's home and to expedite a child's return to his or her home, the office may expend money from the child care fund or from other sources authorized in legislative appropriations for new or expanded programs, if the office determines that the programs are alternatives to out-of-home institutional or foster care. The office shall establish criteria for the approval of expenditures made under this subsection. The office shall submit to the legislature and the governor a report summarizing and evaluating the implementation of this subsection and containing recommendations for its future use.” (emphasis added)

Recent CCFMU requirements for more data from the courts have required significantly increased court/county personnel time and data collection efforts. The MDHHS/CCFMU administrative reason given for the increase in data reporting and electronic uploading was to provide CCFMU staff the ability to conduct monthly desk audits rather than conduct an annual site visit in each jurisdiction except for “high risk” courts. This was disappointing to some courts because the courts welcomed the annual site visits as they provided CCFMU staff a better understanding of the in-home-care programs being offered on a local level.

The courts and counties are available for fiscal and program reviews on an annual basis. Ample time and data for MDHHS/CCFMU to monitor the expenditures and programs is set aside for such reviews, and more time will be made available upon request.

Due to the massive change in CCFMU staff, CCFMU technical assistance in developing and analyzing juvenile justice programs and in fiscal areas is lacking. Thus, CCF expertise is also challenging. In addition, although the courts administrators understand the intent,

requiring the courts to submit all questions through a common portal is not responsive, flexible nor conducive to helpful technical assistance.

**FINDING #2**      **MDHHS did not document its review of county IHC programs.**

**MAFCA RESPONSE**

Until the last two years, MDHHS/CCFMU asked the courts for and received the information for the reviews. Courts also received a written summary of the findings from CCFMU staff in a timely manner, citing any corrective action items or performance approval.

The courts/counties cannot attest to whether MDHHS/CCFMU analyzed or documented the data. However, the data was compiled and used by courts to analyze their respective programs.

Historically, the CCFMU consistently analyzed the CCF data for specific purposes, and the data was reported, annually, which is desired by the courts.

The data and outcomes have been consistently reported by the courts to the MDHHS/CCFMU over the past years. Recently, DHHS/CCFMU removed the section from the Annual Plan and Budget which demonstrated the reduction in out-of-home care. We understand this section has been reinstated for the new fiscal year.

Again, the monthly data requirement for submission by the courts has significantly increased over the recent years. Some courts submit more than fifty-five pages of financial and program data every month with the 207 report. It would be helpful if the courts had a voice in these requirements, and they were jointly established as defined by statute and the CCF Handbook to prevent misinterpretations and/or mid-year changes.

In prior years, MDHHS/CCFMU business practices required 3 people to review each budget prior to approval. The approval implied everything remaining in the budget was appropriate, and annual site visit/reviews made certain all expenditures were valid. Site visits included fiscal and program reviews, making sure all expenditures met eligibility criteria; expenditures were properly tracked from invoice to payment within the county's financial system; and programs provided direct services to youth. The counties/courts were held accountable through corrective action plans and if non-compliant in resolving the issue(s) in a timely manner, the situation was escalated by MDHHS. The change in the approval has been a recent development.

## APPROVING COUNTY CCF PLANS AND BUDGETS

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**FINDING #3** MDHHS needs to improve its county CCF annual plan and budget review and approval process to help ensure that CCF funding is provided for only planned activities that comply with State law and CCF Handbook requirements.

### MAFCA RESPONSE

It is important to note, the total amount of expenditures cited in the Audit Report includes expenditures for OHC of child welfare cases *and* delinquency. The CCF expenditure projections identified by line item in the annual plan and budgets are expenditures relating to delinquency cases.

Line item budget detail for CCF expenditures related to juvenile detention facilities *is* submitted on the 207 report for each month so although it is not included for court/county operated facilities in the annual plan and budget and is reported as a lump sum, expenditures *are* identified and submitted monthly by line item to the CCFMU for review and approval.

OHC facilities are licensed. More specific information can be obtained from the licensing unit within MDHHS. Counties can share the information requested at review, as well.

More robust descriptions of county/court operated juvenile detention centers can be provided, or easily obtained from MDHHS's licensing unit. A description of services within each facility, including per diem and other information, also accompanies the annual plan and budgets upon submission.

All youth served may qualify and be determined to be at-risk for placement.

County/court operated facilities can and do submit per diem rates, intake criteria, etc., upon request. Most of these are juvenile "Detention Centers."

The amounts found for ineligibility demonstrate (even if extrapolated) to less than one half of 1% of the total cost. Although the courts/counties and MDHHS would prefer this to be 0%, this concern may have been the result of a different interpretation or an oversight. Regardless, it appears to be a relatively easy fix.



## **MONITORING THE STATE'S REIMBURSEMENT OF COUNTY CCF EXPENDITURES**

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**FINDING #4** MDHHS needs to improve its annual on-site fiscal review procedures and documentation to help ensure that it effectively monitors the propriety of CCF reimbursements to counties.

### **MAFCA RESPONSE**

Forms signed by the Judge and County DHHS Director assure or "certify" the courts understand and will follow all spending guidelines. The personal signatures bind the courts to function by the rules to the best of their abilities. Occasional mistakes may be made, but the current corrective action plan process is an effective process in place.

Again, everything the MDHHS/CCFMU needs is available when counties/courts are reviewed on site. The current and frequently changing data requirements from the counties/courts by the CCFMU has increased the costs to the counties, substantially, with no additional compensation.

The following was cited in the Audit Report:

- (1) 67 (10%) of 683 selected fiscal year 2011 and 2012 expenditures totaling \$17,327 were ineligible for CCF reimbursement.

Each county submits CCF expenditures using their respective formats for expenditures, general ledgers, etc. as often dictated by their electronic financial systems; each articulates the information differently. This appears to have been confusing for the frequently changing CCFMU staff over the past few years, requiring the courts to provide extensive explanation. Some county documentation may initially appear to include what are ineligible costs, but the costs are backed out of the total and NOT included as actual expenditures in the submission. This could be misleading if the auditors didn't have adequate background information or an understanding of this.

**FINDING #5** MDHHS could improve its monthly review and approval process for county CCF expenditure reports to enhance its stewardship of CCF funding and its timely detection of ineligible CCF expenditures.

**FINDING #6** MDHHS could improve its documentation of annual on-site program review procedures to assist it with ensuring proper oversight of county IHC program activities and resulting CCF reimbursements.

## **FINDINGS #5 and #6**

### **MAFCA RESPONSE**

Monthly reviews are necessary and important to MDHHS, the legislature and the courts/counties. However, it is imperative only the documentation required by the CCFMU staff to make a determination about the CCF expenditures on the 207 Report is essential to the process to reduce the amount of additional work on the courts.

Annual program reviews were based on the MDHHS/CCFMU's determination of CCF risk for ineligible practice or programs, e.g., whether donations are used for match and contracts were offered inappropriately from those who donated, etc. On the surface, this seems reasonable to not burden counties with unneeded site visits. However, annual reviews by CCFMU staff could be an educational process to create more CCF and juvenile justice programming expertise.

It may be appropriate for an audit unit to perform the fiscal reviews, but it is equally important for staff proficient in juvenile justice programming to review services. This may require more training.

## **Summary**

It is sometimes easy to forget the counties/courts pay 50% of the CCF expenditures. For decades, the juvenile court staff and MDHHS/CCFMU staff had a functional, effective, and efficient relationship which has translated in improving outcomes for children and families. By developing, funding and implementing evidence based and promising practice programs to meet the individual needs of the children served, the courts and the CCFMU have facilitated significant cost savings to the State, which has contributed to the closing of several public residential facilities.

MAFCA membership representing the courts wants to partner with the MDHHS/CCFMU. However, partnership means there has to be transparency, objectivity, a proprietary understanding of the CCF of both systems, a willingness to be mutually helpful, and a meaningful voice for all to ensure a successful partnership



# **APPENDIX**

## **AUDIT OBJECTIVES, CONCLUSIONS FINDINGS AND OBSERVATIONS**

## **EVALUATING THE PERFORMANCE OF COUNTY CCF PROGRAMS**

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### **BACKGROUND**

The Child Care Fund (CCF) supports a collaborative effort between the State and county governments to develop and fund a variety of creative and innovative community-based programs to serve neglected, abused, and delinquent youth in Michigan. County governments develop and fund in-home care\* (IHC) programs (see Exhibits #1 and #2) as an alternative to more costly out-of-home care\* (OHC) options, such as foster care or institutional care. These programs provide necessary services while either allowing children to remain in the own homes or focusing on early reunification of youth already in OHC placements with their family.

The CCF was created by Public Act 87 of 1978. One of the purposes for the legislation was to set up a single-purpose agency, the Office of Children and Youth Services, to help resolve the unevenly distributed children and youth services throughout the State that varied in quality. The services were inadequate in some counties. The enabling legislation sought to provide the agency with the authority and responsibility for administering youth services and programs in the State. The Office of Children and Youth Services' responsibilities discussed in enabling CCF legislation analysis included, but were not limited to:

- Planning, developing, implementing, and evaluating children and youth services.
- Recommending to the Governor and the Legislature methods of improving the effectiveness of public and private children and youth services and programs.
- Promulgating rules necessary to implement, administer, and enforce its powers and duties.
- Promoting programs and policies encouraging the prevention of dependency, neglect, delinquency, and other conditions adversely affecting the welfare of children in trouble or at risk.
- Monitoring and evaluating children and youth services and programs and recommending to the Michigan Department of Health and Human Services (MDHHS) director corrective action necessary for the improvement of those services and programs.

Executive Reorganization Order No. 1991-8 transferred the powers and duties of the Office of Children and Youth Services to the former Department of Social Services, now MDDHS.

**AUDIT OBJECTIVE**

To assess the effectiveness\* of MDDHS's efforts in evaluating the performance of county CCF programs.

**CONCLUSION**

Not effective.

**FACTORS  
IMPAIRING  
CONCLUSION**

- Material conditions\* related to:
  - Lack of evaluation of the performance of county IHC programs.
  - Insufficient documentation of county IHC program impact evaluations and related cost reductions from transitioning youth from OHC to IHC services.
- MDHHS required counties to report some performance indicators\* in the annual plans and budgets\*.
- MDHHS obtained impact evaluations from sampled counties during fiscal years 2010 through 2013 in the annual plans and budgets.

## FINDING #1

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Evaluation of IHC program performance needed to ensure that CCF funding is providing successful outcomes.

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MDHHS did not establish performance measures and did not analyze reported performance indicators.

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MDHHS may have an inaccurate interpretation of a Supreme Court decision. Attorney General Opinion is needed.

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MDHHS did not evaluate the performance of county IHC programs to ensure that CCF funding is providing successful outcomes\* for the neglected, abused and delinquent youth served.

MDHHS had not established benchmarks, performance goals, or desired outcomes for IHC programs. MDHHS did require counties to report various performance indicators, such as number of youth served, costs per youth, number of youth successfully completing the program, number of youth that recidivated, and program strengths and weaknesses, in county annual plans and budgets. However, MDHHS did not analyze this performance information at county and Statewide levels. Although MDHHS also conducted fiscal reviews\*, program reviews\*, and reviews of county annual plans and budgets, the purpose and documentation of these reviews primarily focused on compliance and eligibility, not IHC program performance and outcomes.

Section 400.117a of the *Michigan Compiled Laws* (Public Act 87 of 1978) requires that the CCF be administered under MDHHS's superintending control. Sections 400.117d(e) and 400.117d(c), respectively, require MDHHS to consider the demonstrated relevancy, quality, effectiveness, and efficiency\* of the existing and planned county juvenile justice services\* and the State's need for a reasonable degree of Statewide standardization and control of juvenile justice services when making an allocation of State appropriated funds. Section 400.117b allows MDHHS to provide juvenile justice program planning and technical assistance to units of county government.

MDHHS informed us that a 1997 Michigan Supreme Court decision (*Oakland County et al. v State of Michigan, Department of Social Services and Department of Management and Budget*, 456 Mich 144; 566 N.W.2d 616) placed limits on its authority to comply with Section 400.117d(e) and 400.117d(c). The Supreme Court decided that the State would violate the Headlee Amendment if the State capped CCF reimbursements to annual approved budgets (as opposed to actual expenditures) or reduced the State-financed portion of foster care services provided by the counties. In addition, the Supreme Court recognized and concurred that a county must satisfy the conditions for CCF reimbursement prescribed by statute in order to qualify for CCF reimbursement. Section 400.117d(e) provides MDHHS the authority to compel counties to provide the necessary information for effective program evaluation, to dictate to the counties what the counties' IHC programs and goals should be, and to consider possible Statewide standardization as described in Section 400.117d(c).

The Supreme Court decision seems to affect the total amount of annual reimbursement that the counties receive for qualified juvenile justice services provided, not limit MDHHS's administration and oversight of IHC program performance and evaluation as delineated in statute and enabling legislation. The intent of the enabling CCF legislation and resulting statutes was to assign MDHHS the control and responsibility to ensure that quality juvenile justice services are equally distributed throughout the State. MDHHS had not requested an Attorney General Opinion as to the effect of the Supreme Court decision on its statutory authority and responsibilities for administration and evaluation of county CCF programming delineated in Public Act 87 of 1978. Such an opinion is necessary to resolve the conflict between MDHHS practices and statutory responsibilities.

## **RECOMMENDATIONS**

We recommend that MDHHS evaluate the performance of county IHC programs to ensure that CCF funding is providing successful outcomes for the neglected, abused, and delinquent youth served.

We also recommend that MDHHS seek an Attorney General Opinion, and potentially pursue amendatory legislation regarding the breadth of its authority for IHC program performance, evaluation, oversight, and Statewide standardization of CCF-funded juvenile justice services.

## **AGENCY PRELIMINARY RESPONSE**

MDHHS provided us with the following response:

*MDHHS partially agrees with the finding.*

*MDHHS recognizes the importance of evaluating CCF IHC Programs to ensure that CCF funding is provided for services related to child care expenditures that satisfy the conditions for reimbursement as prescribed by CCF Administrative Rules, R 400.2009 and the CCF Handbook, Chapter 7. Section 400.117d of the Michigan Compiled Laws describes the allocation of funds to county juvenile justice service programs and the criteria that shall be considered when, under the former State allocation, that allocation would be distributed to each county as directed under Section 400.117d(d). This section also specifically allows for the county to maintain flexibility in its own individual program development. MDHHS believes that the Michigan Supreme Court ruling, *Oakland et al v State of Michigan, Department of Social Services and Department of Management and Budget*, 456 Mich 144; 566 N.W.2d 616, changed the requirements for reimbursement from a legislatively established allocation to an entitlement of 50% reimbursement for all eligible costs, regardless of the*

*State allocated amount. Therefore, the evaluation of programs must be based on reimbursement eligibility requirements found in CCF Administrative Rules and the CCF Handbook.*

*MDHHS has consulted with the Department of Attorney General and its response is forthcoming.*



## FINDING #2

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**Improved IHC program impact evaluation documentation needed to ensure program efficiency.**

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MDHHS did not document its review of county IHC program impact evaluations and related cost reductions and did not always obtain sufficient impact evaluation information from the counties to help ensure that IHC programs efficiently served neglected, abused and delinquent youth.

*Michigan Administrative Code R 400.2009(h)(iii) requires a county's annual plan and budget to contain a report which evaluates the impact and related reduction of costs by placing youth in IHC services instead of OHC placements. The CCF Handbook, along with an informal policy in practice prior to May 1, 2013, requires the Child Care Fund Monitoring Unit (CCFMU) analyst to review this information during an on-site monitoring program review. The CCF Handbook also requires the county to explain how it calculated estimated cost reductions.*

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**MDHHS did not document its review for any of the 76 county evaluations sampled.**

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Our review of 76 fiscal year 2010, 2011, and 2012 IHC program impact evaluations from 6 counties disclosed that CCFMU analysts did not document their review of any of the 76 evaluations. Also, MDHHS did not ensure that the counties explained how the estimated cost reduction figures were determined in 47 (62%) of 76 evaluations as required. MDHHS review procedures did not require CCFMU analysts to document their review.

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**MDHHS did not require counties to report evaluations and cost reductions in fiscal year 2014 annual plans and budgets.**

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In addition, our review of 15 fiscal year 2014 IHC program evaluations from 15 counties disclosed that none included an evaluation of the impact of IHC services on OHC placements within the counties' CCF funding system. MDHHS inadvertently did not include the section of the county annual plan and budget template that required counties to report impact evaluations and cost reductions when it revised the template in June 2013.

## RECOMMENDATIONS

We recommend that MDHHS document its review of county IHC program impact evaluations and related cost reductions and obtain sufficient impact evaluation information from the counties.

## AGENCY PRELIMINARY RESPONSE

MDHHS provided us with the following response:

*MDHHS agrees with the finding.*

*MDHHS implanted a Child Care Fund Management System in the Michigan Statewide Automated Child Welfare Information System (MiSACWIS), which enhances the entire budget review process and increases the levels of validation/documentation during the approval process. Impact*

*evaluation information must be filled out during the annual plan and budget process for all continuing programs to ensure that it can be reviewed. CCFMU procedures are also being revised to ensure that required review procedures and documentation requirements are inclusive.*

## **APPROVING COUNTY CCF PLANS AND BUDGETS**

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### **BACKGROUND**

Each county must submit an annual plan and budget and several other original documents to MDHHS by October 1st in order to be reimbursed by the State for eligible county CCF costs. The submission must include a detailed list and description of the intended programs and services that the county will provide, including anticipated expenditures, for both OHC and IHC services and programs. Each county includes a single OHC budget but may include multiple IHC program budgets. The annual plans and budgets are primarily a series of forms and, after all forms are electronically generated, completed, and approved by the county circuit court and ancillary proper documentation is received, a CCFMU analyst will start the review process. The review is documented on the annual plan and budget review checklist. CCFMU must complete final approvals by December 15th. Counties are not reimbursed for eligible CCF costs until MDHHS approves their annual plans and budgets.

### **AUDIT OBJECTIVE**

To assess the effectiveness\* of MDDHS's efforts in approving county CCF plans and budgets to ensure counties' compliance with State statute and the CCF handbook.

### **CONCLUSION**

Moderately effective.

**FACTORS  
IMPAIRING  
CONCLUSION**

- All sampled county annual plans and budgets were submitted by counties and approved by MDHHS on a timely basis.
- MDHHS appropriately denied a plan and budget that included \$6 million for ineligible activities.
- CCFMU analysts completed and retained annual plan and budget review checklists for all fiscal year 2014 sampled county budgets.
- Material condition related to improvements needed in the review and approval process to help ensure that county planned activities complied with State law and CCF Handbook requirements.

**FINDING #3**

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**Improved annual plan and budget review and approval process needed to ensure compliance with State law and CCF Handbook requirements.**

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MDHHS needs to improve its county CCF annual plan and budget review and approval process to help ensure that CCF funding is provided for only planned activities that comply with State law and CCF Handbook requirements.

*Michigan Administrative Code R 400.2008* requires that, in order to be eligible for State CCF reimbursement, a county shall annually submit a plan and budget to MDHHS which conform to the requirements MDHHS has established in the CCF Handbook. Section 400.117c(5) of the *Michigan Compiled Laws* requires MDHHS's approval of annual plans and budgets. Counties shall receive reimbursement for only services approved in the annual plan and budget.

MDHHS inappropriately approved annual plans and budgets with missing required information, incomplete descriptions, and planned ineligible activities. For 15 counties, we reviewed 45 fiscal year 2010 through 2012 and 15 fiscal year 2014 randomly and judgmentally selected annual plans and budgets. Within these 60 plans and budgets, we reviewed 60 OHC budgets and 47 IHC program budgets. Our review disclosed that MDHHS approved:

- a. All 60 plans and budgets with planned OHC activities related to county-operated facilities and licensed family foster care homes that did not include a description of the services that the counties planned to provide and related cost categories.

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All of the OHC and over half of the IHC program annual plans and budgets sampled were approved without sufficient descriptions and information to adequately determine compliance.

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All 60 plans and budgets contained only the total dollar amount that counties planned to expend rather than delineating any service and cost categories for CCF reimbursable activities, such as staffing, treatment, food, clothing, education, utilities, and others. In contrast, counties are required to describe, in detail, the types of IHC programs and services they will provide. OHC expenditures totaled \$868.4 million during fiscal years 2010 through 2012 and \$245.3 million during fiscal year 2014 (see Exhibit #4).

The CCF Handbook requires each county circuit court to submit a detailed list of services it wishes to provide, a projection of anticipated expenditures, and descriptions of services to be provided in the annual plan and budget. Despite this requirement, MDHHS did not design the annual plan and budget forms to obtain such information because MDHHS believed that OHC activities are commonly understood. Without the delineation of services and related cost categories, a risk exists that CCF funding could be provided for non-CCF reimbursable activities, such as courtroom operations (attached to the facility) that are used for judicial administrative purposes and ineligible indirect costs (see Finding #4).

- b. 17 (61%) of 28 IHC program budgets with contracted services totaling \$1.5 million that the counties did not fully describe to ensure the services were for eligible youth.
- c. 9 (60%) of the 15 fiscal year 2014 plans and budgets containing county-operated facilities that did not include required information in the facility descriptions, such as:
  - The formulas used to prorate CCF reimbursable and non-CCF reimbursable activities.
  - How the facility fits into the total foster care delivery system.
  - Per diem rates.
  - Intake and release criteria.
- d. 24 (51%) of the 47 IHC program budgets without sufficient information for planned per-unit limited activities. For example, the IHC program budgets included planned activities for telephone, cellular phone, copier chargers, maintenance and repair costs, equipment and vehicle rentals, and office equipment exceeding \$500. However,

the IHC program budgets did not include the number of planned units for each activity so that MDHHS could not determine that the county did not plan to exceed the \$500 per unit annual maximum reimbursement permitted for these activities.

- e. 8 (17%) of the 47 IHC program budgets with at least one planned activity that was ineligible for reimbursement. These ineligible planned activities totaled \$18,992.

Contrary to the annual plan and budget information requirements that MDHHS placed on the counties, MDHHS informed us that it was more concerned with actual, rather than planned, county CCF expenditures. MDHHS reviews actual county CCF expenditures during MDHHS on-site fiscal reviews (see Finding #4). This practice puts CCF funding at an unnecessary risk rather than identifying and eliminating ineligible activities up front in the annual plan and budget review process.

## RECOMMENDATION

We recommend that MDHHS improve its county CCF annual plan and budget review and approval process to help ensure that CCF funding is provided for only planned activities that comply with State law and CCF Handbook requirements.

## AGENCY PRELIMINARY RESPONSE

MDHHS provided us with the following response:

*MDHHS agrees with the finding.*

*MDHHS has implemented the following corrective actions:*

- *CCF annual plans and budgets and monthly reimbursement requests have been implemented into MiSACWIS.*
- *MDHHS has increased the level of review of the annual plan and budget completed by the analysts and the supervisor for final approval. Checklists have been developed and must be completed as the analyst and supervisor are approving the annual plan and budget.*
- *MDHHS has developed an enhanced review protocol of the entire county reimbursement request. Analysts have been trained in the approval process, and a supervisor approval must be completed before the monthly reimbursement is completed.*



*MDHHS will review the information requested in the budget forms and determine what additional elements should be added to ensure that pertinent information is included in the budget form so it can be evaluated as part of the annual plan and budget review and approval process.*

## **MONITORING THE STATE'S REIMBURSEMENT OF COUNTY CCF EXPENDITURES**

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### **BACKGROUND**

The State annually reimbursed, on average, \$185 million to 83 counties during the five-year period ending September 30, 2014. MDHHS reimburses counties 50% for all approved CCF eligible expenditures. Exhibits #3, #4, and #5 illustrate fiscal year 2010 through 2014 county CCF total expenditures, OHC expenditures, and IHC expenditures, respectively. Counties must electronically submit a monthly expenditure report for each applicable administrative unit\* along with supporting documentation to CCFMU. CCFMU analysts conduct desk reviews of all county monthly expenditure reports and are required to document their reviews on approval work sheets. If the review does not uncover any noncompliance issues, the CCFMU analyst will electronically approve the monthly expenditure report.

In addition to the desk reviews, CCFMU conducts annual on-site program reviews of county-developed IHC programs and fiscal reviews of county CCF expenditures for each applicable administrative unit. CCFMU analysts review all county IHC programs during a program review. Prior to fiscal year 2014, CCFMU analysts reviewed 4 months of expenditures during a fiscal review. Beginning in fiscal year 2014, CCFMU analysts reviewed only 1 month of expenditures. CCFMU provides written CCF Compliance Reports\* to the counties that document the results of the on-site program and fiscal reviews, any finding, and any other relevant information. Prior to fiscal year 2014, MDHHS conducted annual on-site program and fiscal reviews at each of the 83 counties. Beginning in fiscal year 2014, MDHSS implemented a risk-based approach to select counties. CCFMU analysts conducted 26 county on-site reviews in fiscal year 2014.

### **AUDIT OBJECTIVE**

To assess the effectiveness of MDHHS's efforts in monitoring the appropriateness of the State's reimbursement of county CCF expenditures.

### **CONCLUSION**

Moderately effective.

### **FACTORS IMPAIRING CONCLUSION**

- CCFMU reviewed and approved all county monthly expenditure reports sampled prior to reimbursing county CCF expenditures.
- CCFMU completed all planned county on-site program and fiscal reviews in fiscal year 2012 and 2014.

- CCFMU completed and issued on a timely basis all CCF Compliance Reports to the counties resulting from annual program and fiscal reviews.
- CCFMU reviewed the appropriate number of individual IHC case records during annual program reviews and ensured that each case record included required documentation.
- Reportable conditions\* related to improvement needed in:
  - Annual on-site fiscal review procedures and documentation.
  - Monthly review and approval process for county CCF expenditure reports.
  - Documentation of annual on-site program review procedures.

## FINDING #4

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**Improvements in fiscal review procedures and documentation needed to effectively monitor the propriety of CCF reimbursements.**

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MDHHS needs to improve its annual on-site fiscal review procedures and documentation to help ensure that it effectively monitors the propriety of CCF reimbursements to counties.

Section 400.177a(3) of the *Michigan Compiled Laws* requires MDHHS to monitor juvenile justice services money. The CCF Handbook requires CCFMU analysts to verify that counties properly authorized, appropriately supported, and accurately reported CCF expenditure reimbursements. CCFMU performs annual on-site fiscal reviews of selected counties as one method to meet these requirements.

We acknowledge that the dollar amount of ineligible county CCF expenditures reimbursements presented below are not significant to the total CCF reimbursements during our audit period. However, the number of errors within our samples indicates that shortcomings exist which present opportunities for MDHHS to improve its oversight:

- a. Our testing of randomly and judgmentally selected higher risk\* fiscal year 2011 and 2012 expenditures from 9 counties and fiscal year 2014 expenditures from 4 counties that were subject to review by CCFMU analysts disclosed:

- (2) 67 (10%) of 683 selected fiscal year 2011 and 2012 expenditures totaling \$17,327 were ineligible for CCF reimbursement.

- (3) 20 (16%) of 129 selected fiscal year 2014 expenditures totaling \$48,356 were ineligible for CCF reimbursement. One of the expenditures was for a recurring monthly billing for contracted services. We reviewed the remaining 11 months and determined that MDHHS inappropriately reimbursed an additional \$387,783 to the county.

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**Review sampling procedures not adequate to identify ineligible expenditures in higher risk CCF reimbursements and months.**

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- b. MDHHS needs to improve its review of indirect costs to ensure that counties receive reimbursement for only eligible costs as described in the county cost allocation plans and annual plans and budgets. Our review of fiscal year 2014 indirect costs for 4 counties disclosed that 1 county was reimbursed \$94,970 for expenditures in excess of the total indirect costs approved in the county's annual plan and budget. MDHHS review procedures required the CCFMU analysts to review a random sample of CCF indirect costs/cost allocation expenditures and did not address whether or not the analysts should review individual moth, cumulative, or total annual indirect cost expenditure reimbursements. We also noted that indirect

costs allocated in the counties' CCF subaccounts included ineligible costs, such as advertising, audit, labor relations, investment management, and recruiting costs. The CCF Handbook required that all reimbursable indirect costs be for expenses that are not prohibited for reimbursement from the CCF. MDHHS informed us that CCFMU analysts did not review cost allocation plan cost descriptions during on-site fiscal reviews.

- c. MDHHS needs to improve the extent of its review conducted on annually capped expenditures. Our review of fiscal year 2014 monthly leased copier fees for 4 selected counties disclosed that these counties were reimbursed \$18,539 in ineligible expenditures. The CCF Handbook disallows costs that exceed \$500 annually for the direct rental or lease of equipment or for equipment charged for on the basis of use. MDHHS review procedures required the CCFMU analysts to review a random sample of equipment purchases or equipment maintenance charges to ensure that the \$500 limit was not been exceeded. MDHHS review procedures did not sufficiently instruct the analysts to review cumulative or total annual equipment related expenditures submitted by the county for reimbursement in order to ensure that the county did not exceed the cap.
- d. MDHHS should consider the dollar amount and risk or CCF reimbursements when selecting sample months for review. For example, the month of September typically poses more of a risk for inappropriate reimbursements because it is the last opportunity for counties to submit expenditures for reimbursement and use all annual appropriation allotments. We noted that in fiscal year 2012, MDHHS issued the largest amount of monthly reimbursements during the month of September. However, only 5 (6%) of the 83 reviews that MDHHS conducted during that year included an analysis of September expenditures. We also evaluated supporting documentation for 9 fiscal year 2014 reviews and noted that none included an analysis of September expenditures.

Our testing of randomly and judgmentally selected higher risk fiscal year 2011 and 2012 expenditures from 9 counties and fiscal year 2014 expenditures from 4 counties during August and September that were not reviewed by CCFMU analysts disclosed:

(1) 25 (12%) of 216 selected fiscal year 2011 and 2012 expenditures totaling \$8,140 were ineligible for CCF reimbursement.

(2) 12 (11%) of 121 selected fiscal year 2014 expenditures totaling \$8,819 were ineligible for CCF reimbursement.

e. MDHHS should continue to assess the level of annual on-site fiscal reviews necessary. MDHHS conducted 26 reviews in fiscal year 2014 centered on a risk-based approach. Prior to 2014, MDHHS did not always conduct required reviews. MDHHS did not conduct 3, 4, and 2 reviews in fiscal year 2010, 2011, and 2013, respectively. MDHHS's CCF reimbursements to these counties accounted for 49%, 61%, and 42% of total Statewide CCF reimbursements during those fiscal year, respectively. MDHHS informed us that it had not conducted reviews of these counties because of a lack of sufficient staff resources. Of the 9 counties that CCFMU analysts did not review in fiscal years 2010, 2011, and 2013, 8 were assessed as high risk counties in fiscal year 2014.

f. MDHHS did not always complete or fully complete on-site fiscal review documentation to help ensure completeness and consistency and to support its conclusions. The CCF Monitoring Policies and Procedures Manual required CCFMU analysts to document review procedures on standardized tools. Our examination of CCFMU documentation for reviews conducted during fiscal years 2010 through 2012 for 15 counties and during fiscal year 2014 for 9 counties noted that required checklists and expenditure test work sheets were not completed at all by the analysts or were incomplete in over 70% of the reviews. MDHHS indicated that the checklists were merely a guide and some analysts documented transactions on the CCF expenditure test work sheet only if errors were noted during their review.

g. MDHHS should improve the documentation obtained and reviewed for CCF expenditures incurred by subcontractors to help ensure that the expenditures are appropriately supported and eligible for reimbursement. CCFMU analysts accepted monthly billings from subcontractors as adequate documentation; however, the monthly billings did not include the necessary detail to allow the analysts to reasonably determine if the contracted activities and/or services billed were eligible for reimbursement. MDHHS reimbursed a county

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Insufficient review  
procedure  
documentation  
occurred in over 70%  
of sampled reviews.

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approximately \$73 million for contracted activities and/or services in fiscal years 2011 through 2014.

We did not project the errors identified during our review of county CCF expenditure transactions Statewide because a portion of our samples were judgmentally selected based on risk and differences in CCF activities, expenditures, and internal control\* among the counties. Therefore, we could not be confident that our test results for the counties selected would be representative of the other remaining counties. However, we do believe that the deficiencies noted with MDHHS's annual on-site fiscal review procedures and documentation make it likely that similar errors exist in the remaining untested county CCF expenditure populations.

#### **RECOMMENDATION**

We recommend that MDHHS improve its annual on-site fiscal review procedures and documentation to help ensure that it effectively monitors the propriety of CCF reimbursements to counties.

#### **AGENCY PRELIMINARY RESPONSE**

MDHHS provided us with the following response:

*MDHHS agrees with the finding.*

*MDHHS transferred the responsibility for the CCF on-site reviews to the Bureau of Audit, Reimbursement and Quality Assurance (BARQA). In January 2015, BARQA hired two additional auditors to perform the on-site reviews. BARQA management designed an on-site review protocol that assesses whether the county CCF expenditures and revenues were accurate, allowable, and appropriate according to State laws, regulations, and departmental policy. This protocol includes specific steps for the review of ineligible costs, indirect costs, and capped costs. The sampling methodology falls within generally accepted auditing standards. All CCF on-site review reports will be reviewed and approved by BARQA management prior to release to ensure that conclusions are appropriate and necessary documentation is maintained.*

## FINDING #5

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**Monthly expenditure report review and approval process improvements needed to enhance MDHHS's stewardship of CCF funding.**

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MDHHS could improve its monthly review and approval process for county CCF expenditure reports to enhance its stewardship of CCF funding and its timely detection of ineligible CCF expenditures.

Section 400.117a of the *Michigan Administrative Code* requires MDHHS to administer (under superintending control) county child care funds for counties that are not county juvenile agencies. The statute also requires MDHHS to develop a reporting system for CCF reimbursements, including a requirement that counties report billings based on care given to a specific, individual child; the number of children receiving foster care services; and the number of days the care was provided. Beginning in fiscal year 2014, the CCF Handbook and the CCF Monitoring Policies and Procedures Manual required counties to submit a monthly expenditure report and various supporting documents to MDHHS in order to receive State reimbursement of eligible CCF activities. Review and approval of county monthly reimbursement requests was the responsibility of CCFMU. We reviewed August 2014 expenditure reports and related supporting documents for 15 counties and noted:

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**All 15 sampled monthly expenditure approval work sheets were not completed.**

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- a. CCFMU analysts did not complete all 15 required approval work sheets and did not otherwise document their review of the appropriateness of August 2014 expenditures.

CCFMU analysts approved each county monthly expenditure report electronically in the CCF data collection system. The CCF Monitoring Policies and Procedures Manual required analysts to document their review and approval of the reports on an approval work sheet prior to the electronic approval and to retain the work sheets for two years. We identified a lack of documentation within the approval work sheet template that would indicate CCFMU analysts' review of the following items as required:

- (1) Expenditures did not exceed the approved annual plan and budget amounts.
- (2) General ledger totals agreed with the amounts reported in the county monthly expenditure report.
- (3) Number of youth served listed on the county monthly expenditure report agreed with case log listings provided by the county.

MDHHS believed that the CCFMU analysts were appropriately reviewing the reports and that the analysts' electronic approval of the reports was sufficient to demonstrate the appropriateness of all the CCF expenditure

activity reimbursed. Completion of the approval work sheets would help MDHHS demonstrate that CCFMU staff appropriately monitored the propriety of CCF reimbursements.

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20% of sampled reports were approved without obtaining required supporting documentation.

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- b. MDDHS approved 3 (20%) of the 15 county monthly expenditure reports without first receiving a detailed general ledger from the county as required by the CCF Monitoring Policies and Procedures Manual. Instead, CCFMU analysts used summary level information to approve the 3 reports.

The summary level information provided the total amount for each of the county's CCF subaccounts but did not allow for an assessment of individual transaction eligibility. A detailed general ledger reports a listing of all the individual expenditure transactions that make up each county's CCF subaccounts. A detailed general ledger could be an effective tool for MDHHS to identify potentially ineligible transactions for further review that would not be selected for review during an annual on-site fiscal review.

MDHHS did not obtain detailed general ledgers from all counties because it believed that the supporting documents containing summary level information were sufficient to support expenditures.

## RECOMMENDATION

We recommend that MDHHS improve its monthly review and approval process for county CCF expenditure reports to enhance its stewardship of CCF funding and its timely detection of ineligible CCF expenditures.

## AGENCY PRELIMINARY RESPONSE

MDHHS provided us with the following response:

*MDHHS agrees with the finding.*

*MDHHS has implemented additional approval protocol over the monthly review process and has implemented a Child Care Fund Management System in MiSACWIS, which enhances the overall expenditure review process and increases the levels of validation in the approval process within the system. The CCFMU manager is reviewing general ledgers and supporting documentation to ensure that forms are being utilized to document work.*

## FINDING #6

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**Improved documentation of on-site program review procedures is needed to ensure proper oversight of IHC program activities and resulting CCF reimbursements.**

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MDHHS could improve its documentation of annual on-site program review procedures to assist it with ensuring proper oversight of county IHC program activities and resulting CCF reimbursements.

Section 400.115a(b) of the *Michigan Compiled Laws* states that MDHHS shall monitor children and youth services and programs funded through MDHHS. CCFMU analysts conduct annual on-site program reviews of select county IHC programs based on policies established in the CCF Handbook and the CCF Monitoring Policies and Procedures Manual. Sound monitoring practice provides for a written record of all assessments, reviews, and verifications that the CCFMU analysts conducted to support their conclusions.

CCFMU analysts did not always document assessments, reviews, or verifications of pertinent information to support their conclusions regarding IHC program eligibility requirements because of shortcomings in the review tools used. CCFMU analysts documented their IHC program review on checklists (through fiscal year 2013) and work sheets (beginning in fiscal year 2014). Our review disclosed that the checklist and work sheet templates did not include IHC program eligibility requirements such as:

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**Lack of evidence that some pertinent IHC program eligibility requirements were assessed, reviewed, or verified because of shortcomings in the review tools used.**

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- Validation that each IHC program activity provided direct services for youth and families.
- The appropriateness of attorney, detective, and court administrative wages and fringe benefits.
- The eligibility of costs and activities included in service provider contracts.
- The sufficiency of county CCF employee time studies.
- The adequacy of county caseworker caseload sizes.

CCFMU analysts believed that they did not need to fully maintain documentation when they concluded that the county complied with all applicable IHC eligibility requirements.

Maintaining this documentation would help MDHHS demonstrate that analysts appropriately and thoroughly assessed, reviewed, and verified all applicable IHC eligibility requirements during on-site program reviews.

**RECOMMENDATION**

We recommend that MDHHS improve its documentation of annual on-site program review procedures to assist with ensuring proper oversight of county IHC program activities and resulting CCF reimbursements.

**AGENCY  
PRELIMINARY  
RESPONSE**

MDHHS provided us with the following response:

*MDHHS agrees with the finding.*

*MDHHS transferred the responsibility for the CCF on-site reviews to BARQA. In January 2015, BARQA hired two additional auditors to perform the on-site reviews. BARQA management designed an on-site review protocol that assesses whether the county CCF expenditures and revenues were accurate, allowable, and appropriate according to State laws, regulations, and departmental policy. This protocol includes specific steps for the review of general employee, IHC, and basic grant compliance requirements. All CCF on-site review reports will be reviewed and approved by BARQA management prior to release to ensure that conclusions are appropriate and necessary documentation is maintained.*

